

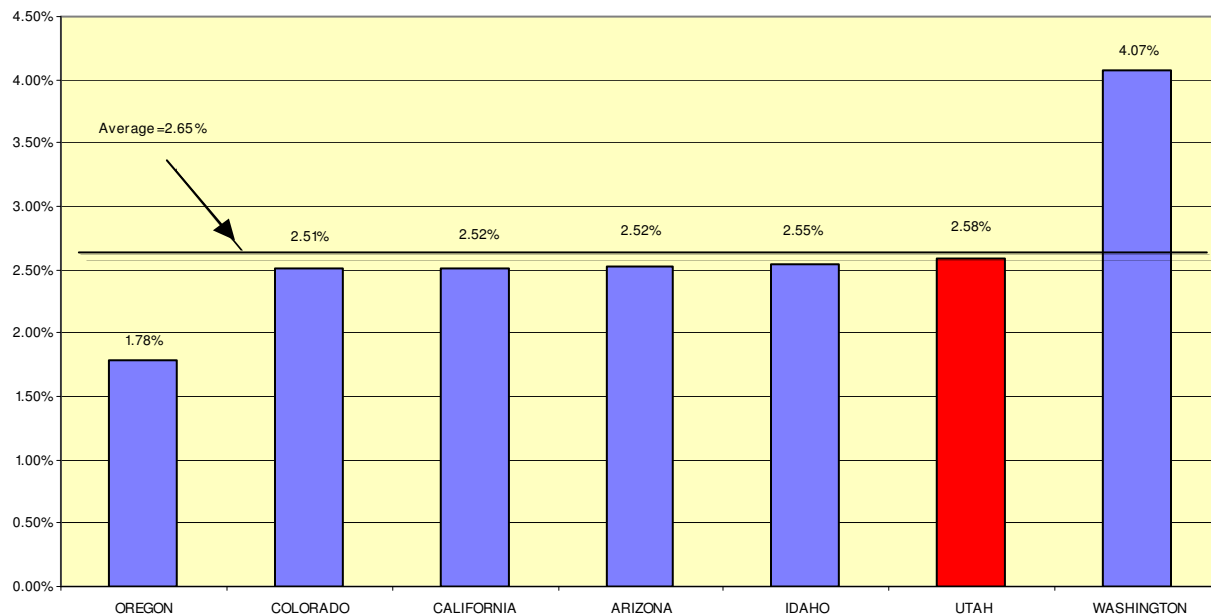
Appendix #5

D. MacDonald, “Western States’ Tax Burdens,
Fiscal Year 2002-2003 (Revised),” Utah State Tax
Commission, Economic and Statistical Unit,
February 3, 2004

Revised

WESTERN STATES' TAX BURDENS FISCAL YEAR 2002-2003

Initial State and Local Tax Burdens for Selected Western States



**Douglas Aird Macdonald
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Utah State Tax Commission
Research Publication 2003-31**

Revisions as of February 3, 2004 in yellow

ACKNOWLEDGEMENTS

Georganna Meyer, Arizona Department of Revenue
Jorge Frank, Arizona Department of Revenue

Joe Fitz, California Board of Equalization
David Hayes, California Board of Equalization
Pat Landingham, California Department of Finance
Pat Fugami, California Department of Finance

Donna Stepan, Colorado Department of Revenue
Don Marion, Colorado Department of Local Affairs

Dan John, Idaho Tax Commission
Jim Husted, Idaho Tax Commission
Mike Ferguson, Idaho Governor's Office of Finance

Tom Potiowsky, Oregon Office of Economic Analysis

Austin Sargeant, Utah Department of Workforce Services

Don Taylor, Washington Department of Revenue

EXECUTIVE SUMMARY

1. Utah's state and local taxes paid by businesses as a percentage of Gross State Product (GSP) dropped 0.22 percent to 2.58 percent of GSP since 1999-2000, saving businesses \$157 million (Table 1, Figure 1). The fall in tax burden came mainly in corporate franchise and sales taxes, not property taxes. The 2.58 percent of GSP business tax burden ranks Utah third among the seven Western states we studied (which have competitive tax systems). Utah's business tax burden fits in a tight range between 2.52 percent and 2.79 percent of GSP with five of the seven states we studied.
2. Washington State maintained the highest level of initial taxes paid by business. Its business tax burden of 4.07 percent of GSP fell slightly by 0.08 percent, as the recession pushed up unemployment taxes but failed to decrease its Business and Occupation tax and business property taxes. The remaining six states incurred significantly declining business income taxes during the three-year recession-hit period. All of these employ corporate net income taxes, which were more elastic with respect to economic slowdowns, compared to Washington's gross receipts tax on business. Lower effective tax rates dropped business taxes by \$1.9 billion in California, \$1.05 billion in Arizona, \$352 million in Oregon, \$265 million in Colorado, \$190 million in Washington, \$167 million in Idaho, and \$157 million in Utah between fiscal years 1999-2000 and 2002-2003.
3. Since FY1994 Arizona has pushed its business tax burden down by 2.1 percent of GSP. This amounts to business tax cuts of \$3.7 billion. Another state that borders California on the north, Oregon, has cut its business tax burden from 3 percent of GSP to 1.8 percent of GSP, saving businesses \$1.7 billion in taxes compared to FY1994.
4. Even though Utah's household tax burden fell from 8.3 percent of personal income to 7.61 percent between 1999-2000 and 2002-2003, it remained the highest household tax burden among the seven Western states studied (Table 1, Figure 2). Utahns paid \$386 million less at the lower 2002-2003 burden, or \$518 per household. Personal income and estate taxes fell from \$1.72 billion in FY2000 to \$1.61 billion in FY2003 as capital gains and other income sources slowed down due to the recession.

5. On the other hand, Utah's extra household tax burden (7.61% compared to the Western state average 6.49% of income) cost its households \$626 million more per year to fund necessary government functions, or an additional \$841 per household. Utah's highest tax burden is likely due to its highest school-age dependency ratio which places heavier demands for public expenditures, particularly for schools, relative to the other Western states.
6. Other significant decreases in household tax burdens over the three-year period occurred in:
 - California – where household tax burden fell from 7.87 percent of income in 1999-2000 to 7.16 percent of income in 2002-2003, due in part to declining personal income taxes on capital gains and stock options. Highlighting California's revenue problems, personal income and estate taxes, which were up to \$40.5 billion in 1999-2000, fell to \$33.1 billion in 2002-2003.
 - Arizona – where the household tax burden fell almost a full percentage point from 7.07 percent of income in 1999-2000 to 6.15 percent of income in 2002-2003. This near 1 percent drop spelled tax savings of \$1.3 billion to Arizona households (almost \$652 per household). In addition to declining capital gains, Arizona lowered its personal income tax rates during the three-year span.
 - Colorado – where household tax burden fell from 6.48 percent of income in 1999-2000 to 6.06 percent, also due in part to the drop off in personal income taxes on capital gains. The 0.42 of 1 percent drop in burden saved Colorado taxpayers \$718 million.
 - Idaho – where the household burden fell 1.3 percent from 7.78 percent of income to 6.47 percent of income. This saved Idaho households \$440 million.
 - Oregon – where the household burden fell 0.35 percent of income, saving Oregonians \$352 million.
7. Despite declines in stock options and capital gains and slowdowns or downright declines in employment, property taxes went up in all of the seven states. In five of the states [California (23%), Colorado (25%), Oregon (22%), Utah (19%) and Washington (18%)] property taxes rose close to 20 percent

between fiscal years 1999-2000 and 2002-2003. In total, property taxes rose 21.4 percent in the seven Western states, compared to 15 percent gains in GSP and personal income over the past three fiscal years. Usually property taxes lag the economy by one year, but during this recession real estate values and homebuilding have continued to rise unabated due to record low interest rates.

Table 1. Business and Household Initial State and Local Tax Burdens, FY 2002-03
Selected Western States

	PERSONAL INCOME* [\$Millions] 2002	HOUSEHOLDS# [Millions] 2002	INCOME Per Household [Average] [Median]**	RANK	STATE & LOCAL TAXES\ HOUSEHOLD	HOUSEHOLD TAXES AS A% OF INCOME	RANK	GROSS STATE PRODUCT^ [2002,\$Mil.]	BUSINESS TAXES AS A% OF GSP	TOTAL TAXES % GSP
ARIZONA	\$142,725	2.014	\$70,866 \$41,554	6	\$4,361	6.15%	5	\$177,499 (\$1,049)	2.519% 4	7.47% 6
CALIFORNIA	\$1,155,247	11.705	\$98,697 \$48,114	1	\$7,068	7.16%	2	\$1,422,756 (\$1,919)	2.515% 5	8.33% 3
COLORADO	\$149,481	1.804	\$82,861 \$49,617	3	\$5,025	6.06%	6	\$176,281 (\$265)	2.51% 6	7.65% 5
IDAHO	\$33,585	0.489	\$68,681 \$38,613	7	\$4,446	6.47%	4	\$41,608 (\$167)	2.55% 3	7.77% 4
OREGON	\$100,481	1.409	\$71,314 \$42,704	5	\$4,822	6.76%	3	\$138,768 (\$352)	1.78% 7	6.67% 7
UTAH	\$55,953	0.745	\$75,105 \$48,537	4	\$5,718	7.61%	1	\$72,372 (\$157)	2.58% 2	8.47% 2
WASHINGTON	\$198,221	2.359	\$84,028 \$44,252	2	\$4,381	5.21%	7	\$227,517 (\$190)	4.07% 1	8.61% 1
AVERAGE			\$78,793		\$5,117	6.49%			2.65%	7.85%
Standard deviation			\$18,599		\$985	0.73%		GDP Price Deflator=	0.64%	0.63%
AVERAGE Median			\$44,770					1.1066		

* Survey of Current Business, BEA, September 2003, D-66

** www.census.gov/hhes

www.census.gov/acs

Table 2. Business and Household Initial State and Local Taxes, FY 2002-03

(In Millions of Dollars)

	INCOME & ESTATE TAXES	PROP- ERTY TAX	GENERAL SALES TAX	TOURIST TAXES	SELECTIVE SALES TAX	SEVER- ANCE TAXES	UNEMPLOY- MENT INSURANCE TAX	TOTAL MAJOR TAXES
ARIZONA								
BUSINESS	389	1,864	1,677		388	1	152	4,471
HOUSEHOLDS	2,192	1,979	3,436		1,177			8,784
TOTAL	2,582	3,843	5,113	0	1,565	1	152	13,255
(% Business)	15%	49%	30%		25%	100%	100%	34%
CALIFORNIA								
BUSINESS	6,700	11,860	11,233	275	2,523	28	3,165	35,784
HOUSEHOLDS	33,137	16,663	24,666	275	7,991			82,732
TOTAL	39,837	28,524	35,899	549	10,514	28	3,165	118,516
(% Business)	17%	42%	31%	50%	24%		100%	30%
COLORADO								
BUSINESS	199	2,379	1,225	1	385	32	202	4,424
HOUSEHOLDS	3,290	1,995	2,626	1	1,154			9,066
TOTAL	3,489	4,374	3,851	3	1,539	32	202	13,490
(% Business)	6%	54%	32%	50%	25%	100%	100%	33%
IDAHO								
BUSINESS	93	426	301	5	128	0	107	1,061
HOUSEHOLDS	853	543	535	5	238			2,174
TOTAL	946	969	836	11	366	0	107	3,235
(% Business)	10%	44%	36%	50%	35%	100%	100%	33%
OREGON								
BUSINESS	225	1,309	0	31	333	25	543	2,465
HOUSEHOLDS	4,073	1,971	0	31	719			6,795
TOTAL	4,298	3,280	0	63	1,052	25	543	9,260
(% Business)	5%	40%		50%	32%	100%	100%	27%
UTAH								
BUSINESS	161	706	633	15	236	33	87	1,870
HOUSEHOLDS	1,606	893	1,385	15	361			4,260
TOTAL	1,766	1,599	2,018	29	597	33	87	6,129
(% Business)	9%	44%	31%	50%	39%	100%	100%	31%
WASHINGTON								
BUSINESS	1,923	2,511	3,111	35	534	38	1,100	9,252
HOUSEHOLDS	122	3,467	4,667	69	2,008			10,334
TOTAL	2,045	5,978	7,778	104	2,543	38	1,100	19,586
(% Business)	94%	42%	40%	33%	18%	100%	100%	47%
TOTAL - 7 Selected States								
BUSINESS	\$9,690	\$21,055	\$18,212	\$362	\$4,527	\$157	\$5,356	\$59,327
HOUSEHOLDS	\$45,273	\$27,511	\$37,346	\$396	\$13,648	\$0	\$0	\$124,144
TOTAL	\$54,963	\$48,567	\$55,558	\$758	\$18,175	\$157	\$5,356	\$183,471
(Avg. % Bus.)	22%	45%	32%	47%	28%	100%	100%	33%

Figure 1. Business Tax Burdens, FY 2002-03, Revised 2/3/04

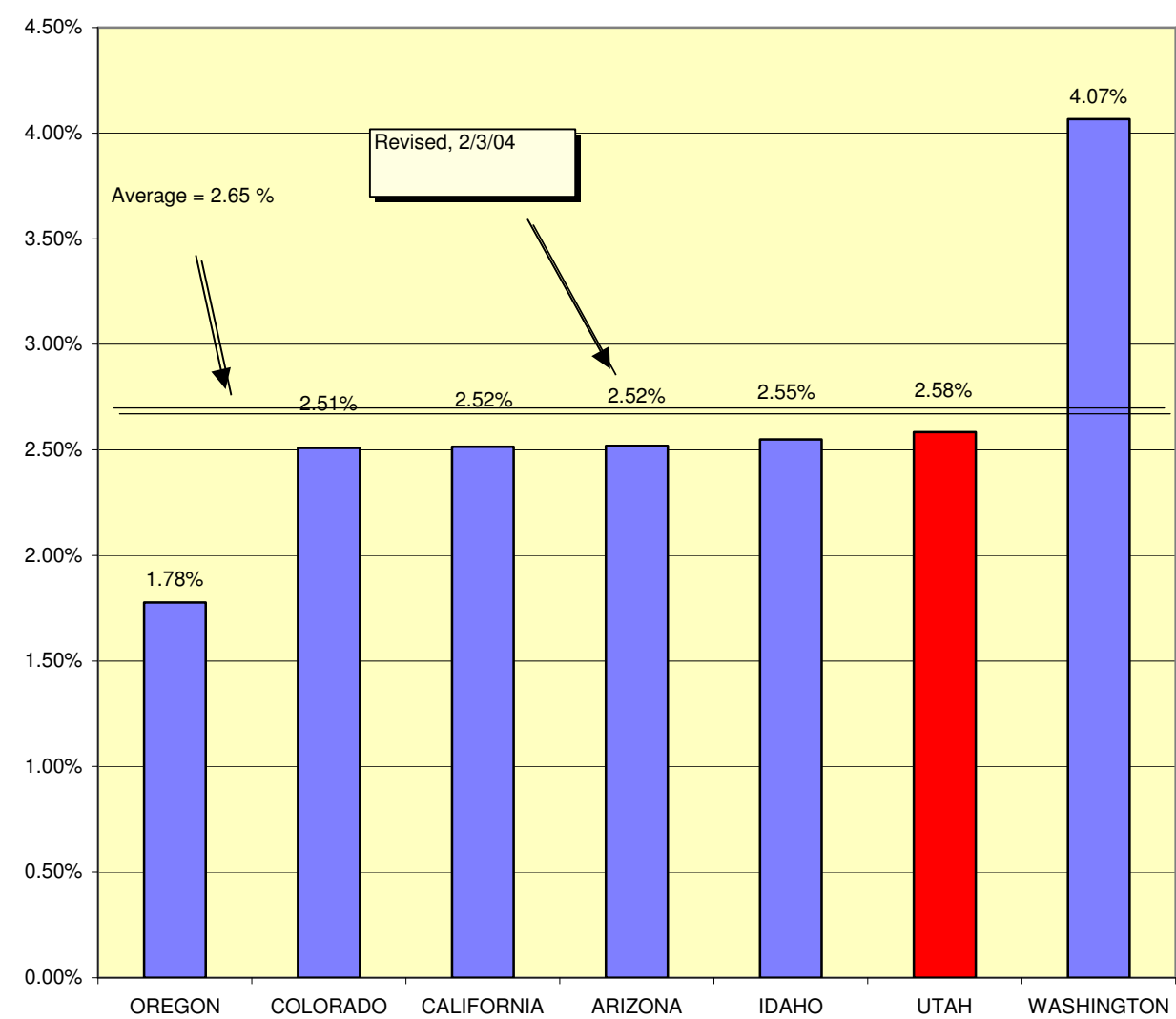
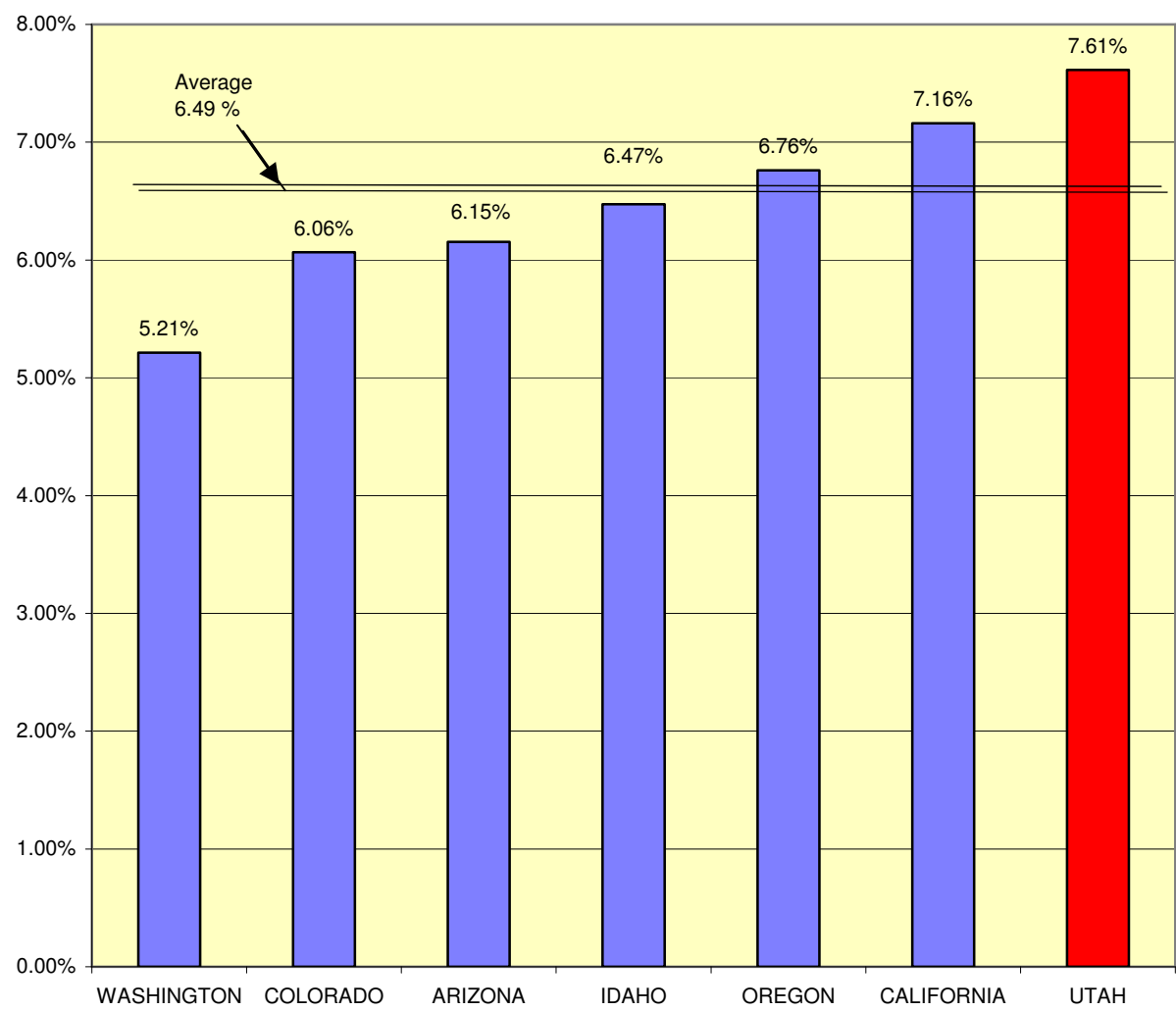
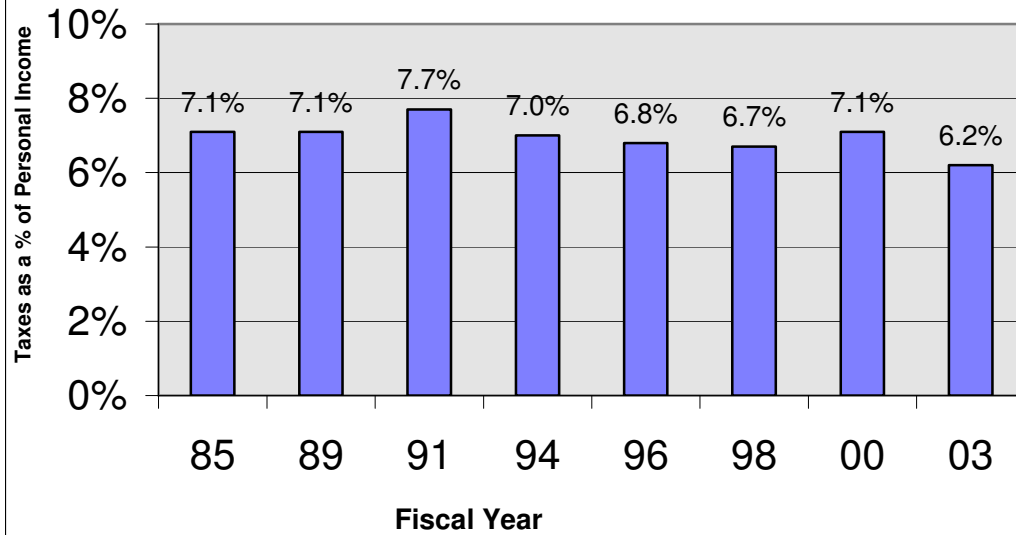


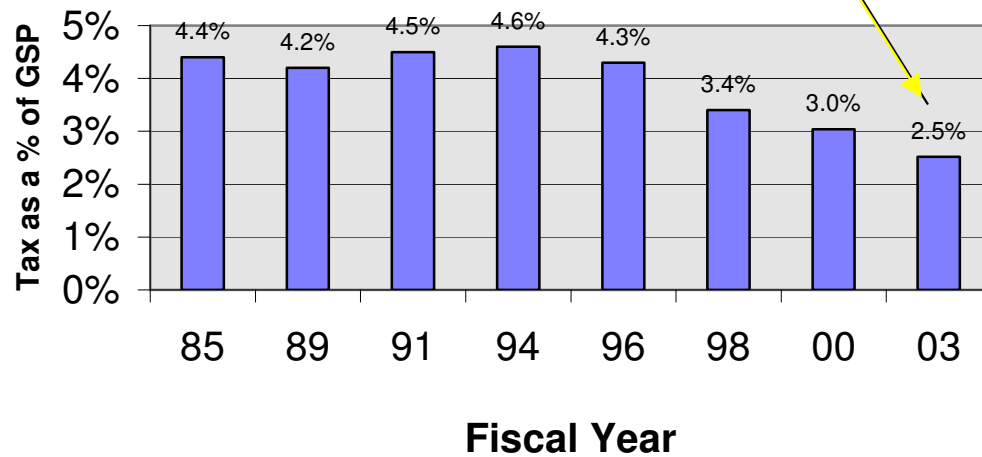
Figure 2. Household Tax Burdens, Selected Western States, Fiscal Year 2002-2003



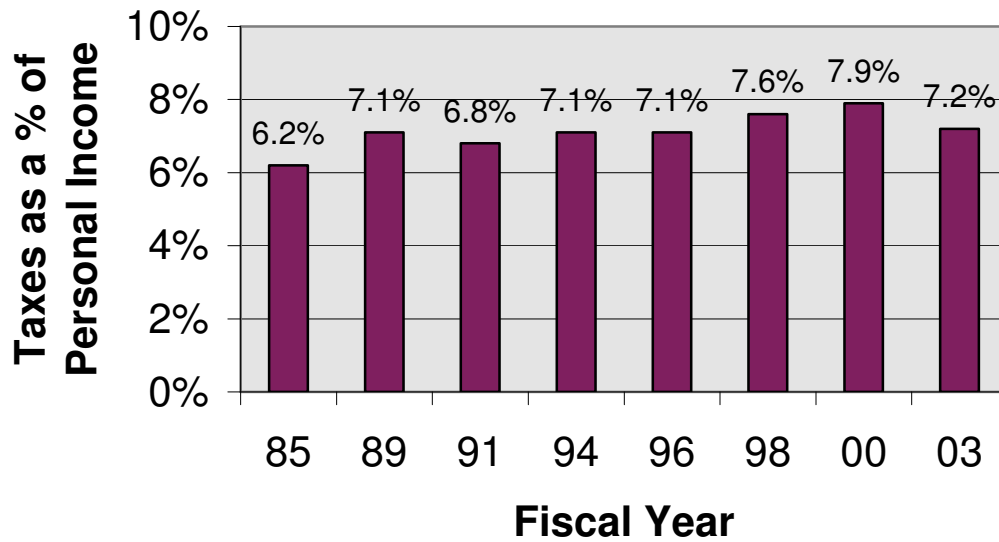
Arizona Household Tax Burdens



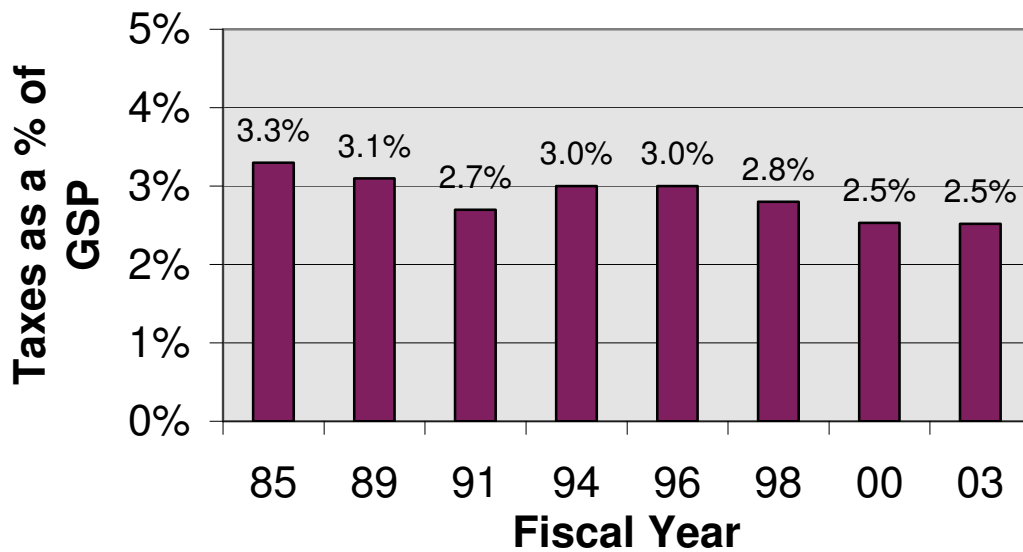
Arizona Business Tax Burdens



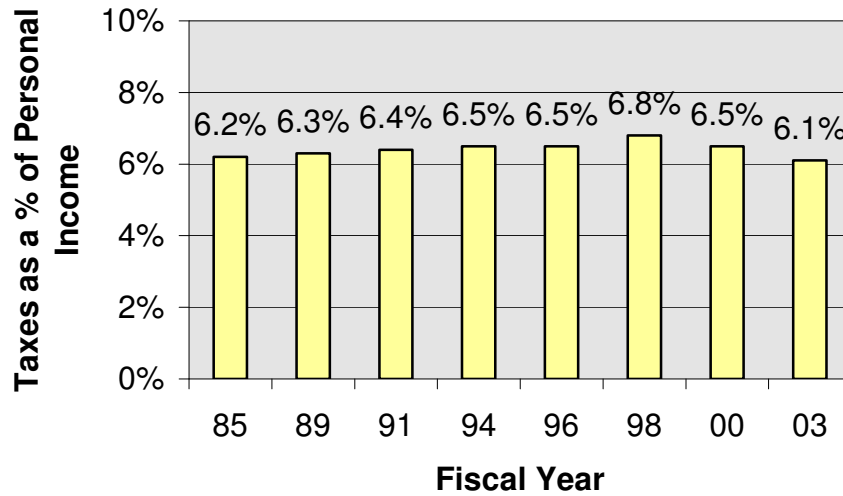
California Household Tax Burdens



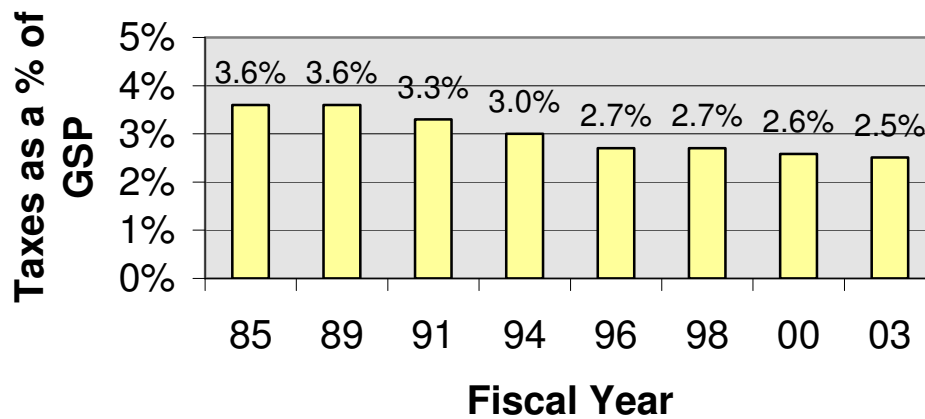
California Business Tax Burdens



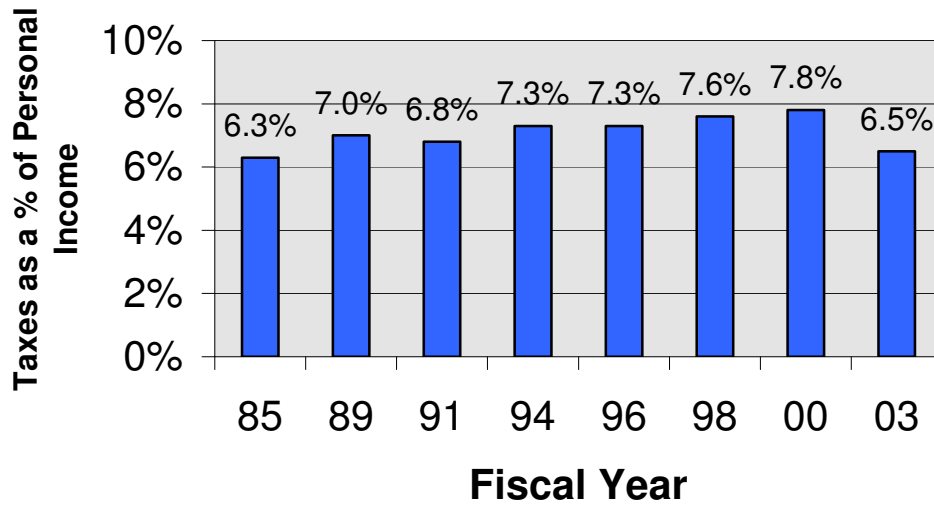
Colorado Household Tax Burdens



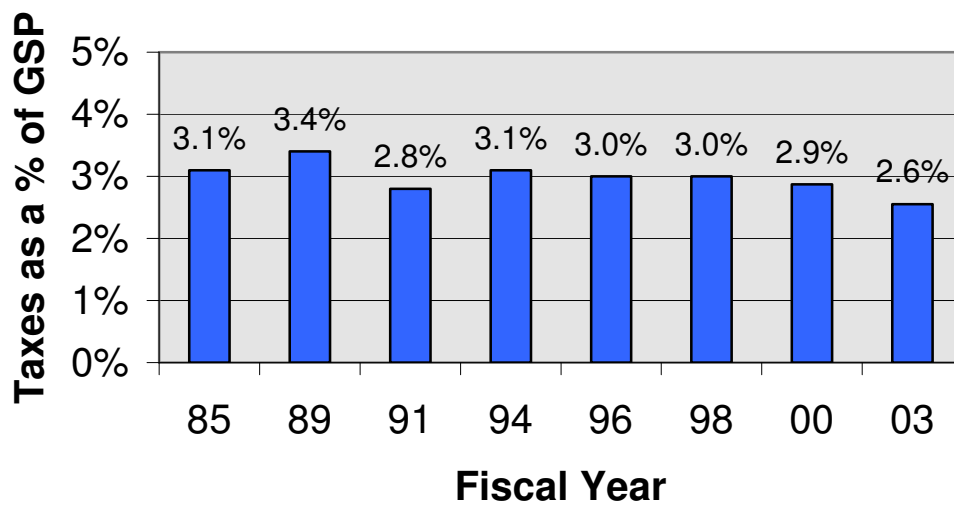
Colorado Business Tax Burdens



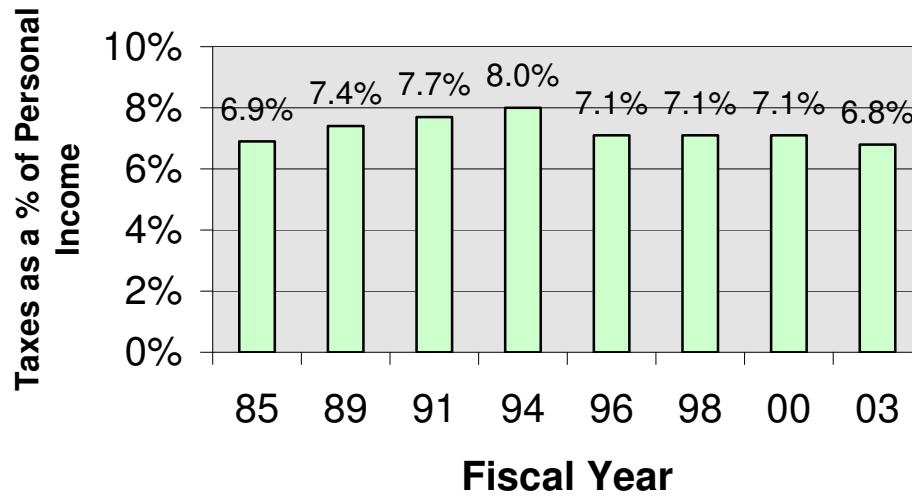
Idaho Household Tax Burdens



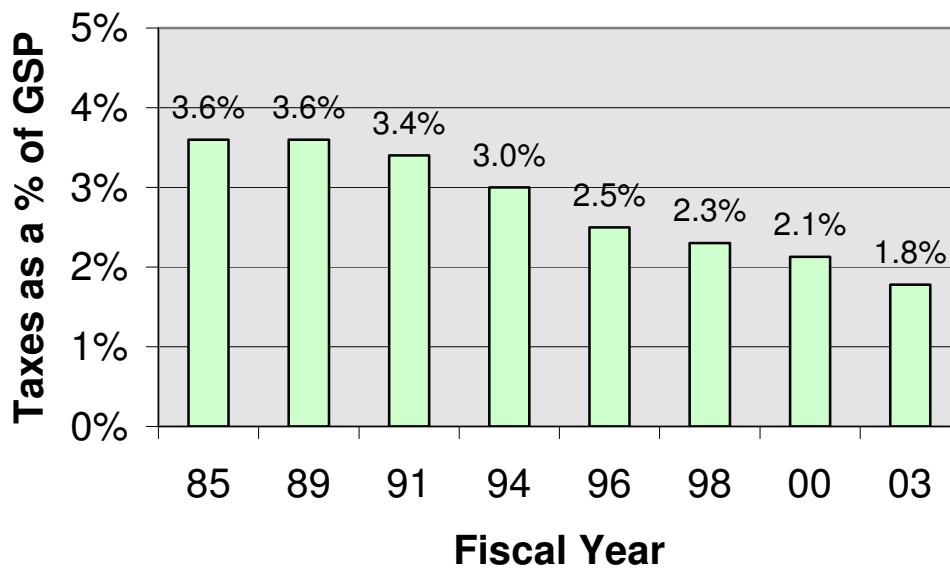
Idaho Business Tax Burdens



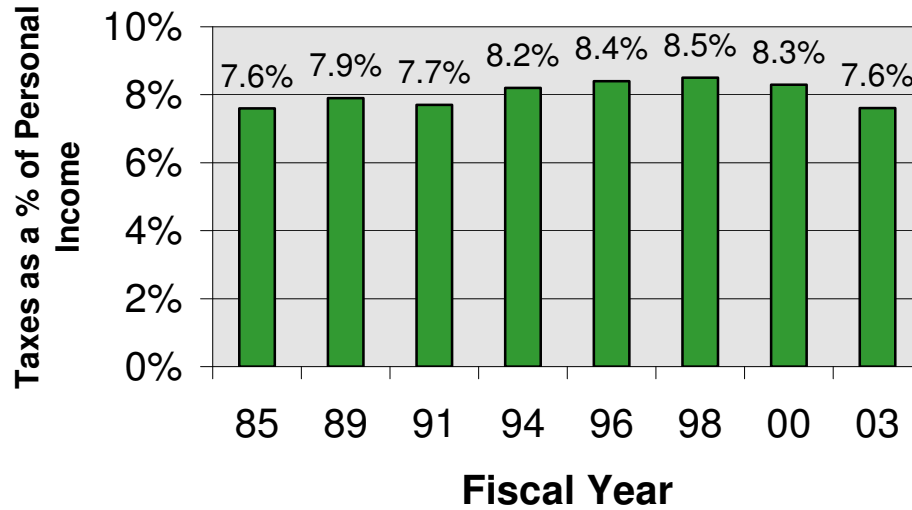
Oregon Household Tax Burdens



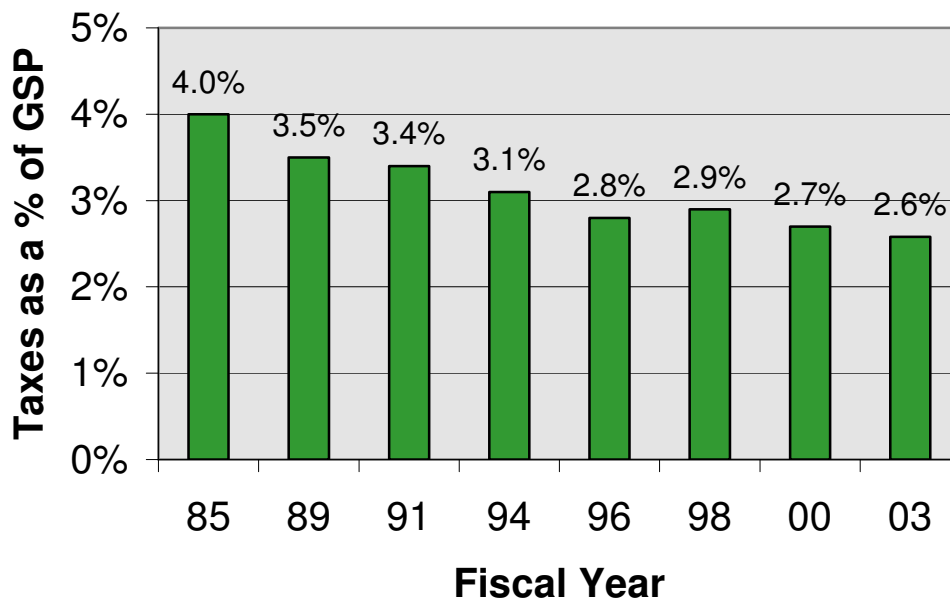
Oregon Business Tax Burdens



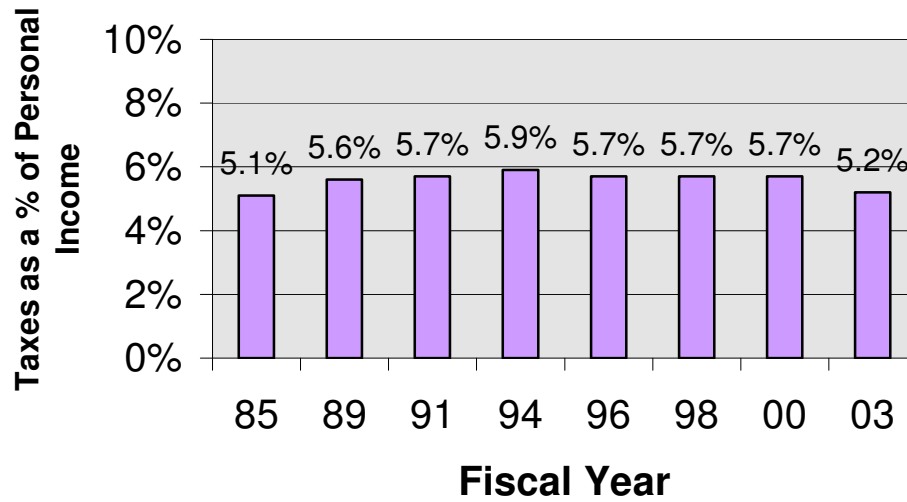
Utah Household Tax Burdens



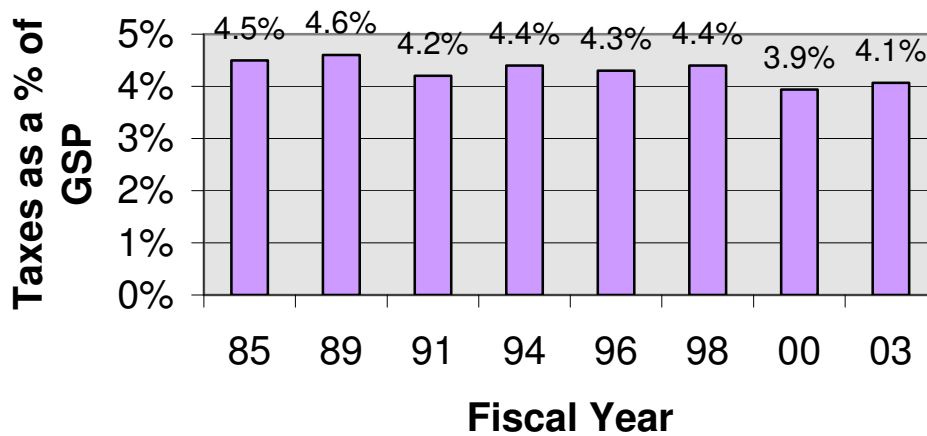
Utah Business Tax Burdens



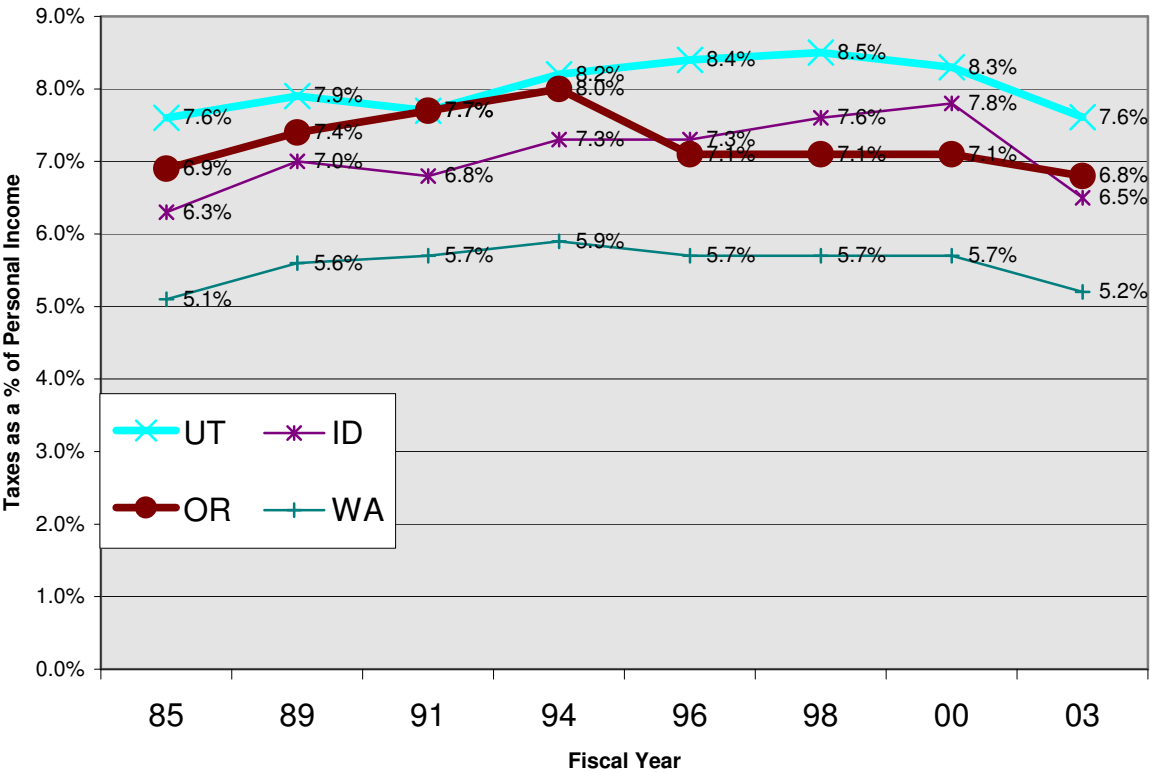
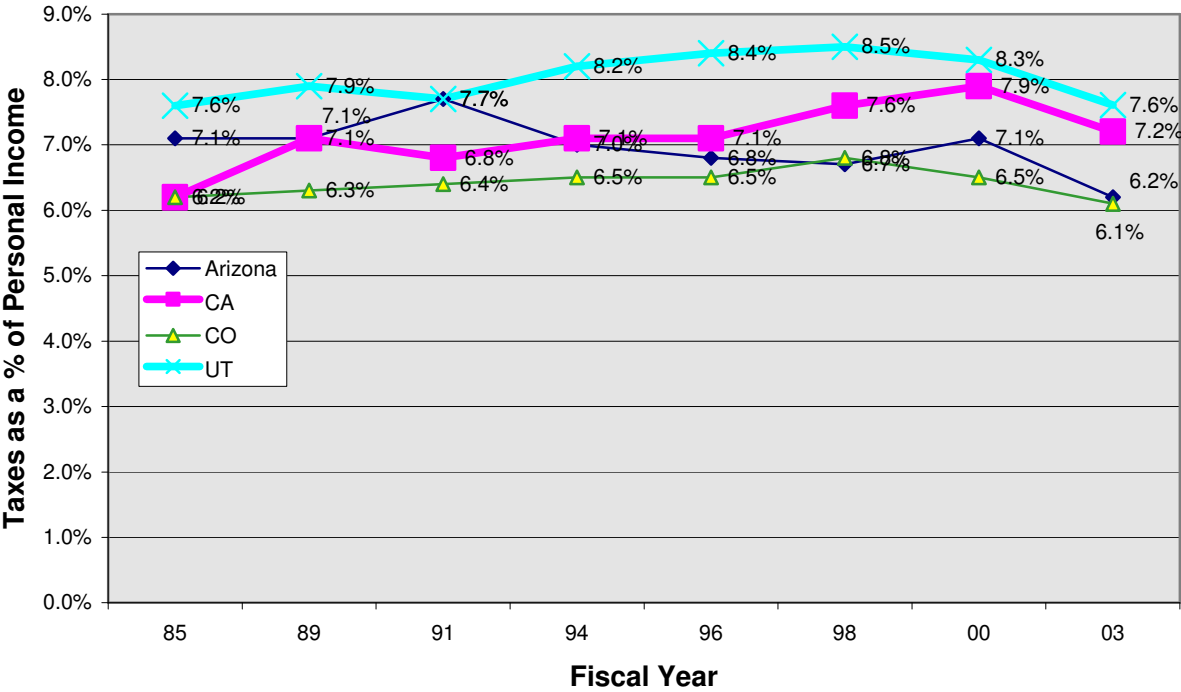
Washington Household Tax Burdens



Washington Business Tax Burdens



Household Tax Burdens, FY85 – FY03



Business Tax Burdens, FY85-FY03

